



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jon Cicirelli

SUBJECT: EARLY CHILDHOOD PROGRAMS AND COST RECOVERY **DATE:** May 22, 2019

Approved

Date

5-22-19

BACKGROUND

This Manager's Budget Addendum (MBA) responds to an information request made by the City Council on March 26, 2019, in the context of staff's Report on Quality Standards for Early Education Programming (Item 5.3). Specifically, the City Council directed staff to provide the current cost recovery rates of existing City of San José early childhood programs and the potential of expanding those programs to additional sites.

The Department of Parks, Recreation and Neighborhood Services (the Department) currently operates a license-exempt childcare program for children ages 3-5 called San José Recreation Preschool. The San José Recreation Preschool program operates 25 classrooms at 13 community center locations. San José Recreation Preschool promotes kindergarten readiness and provides experiences that support physical, cognitive, and social/emotional development in a safe and inclusive environment. San José Recreation Preschool offers *Little Learners* classes for children ages 3-4 years old, and *Kinder Prep* classes for children ages 4-5 years old. Parents can enroll their children in either a Monday/Wednesday/Friday class option, or a Tuesday/Thursday option. The duration of individual classes under either option is 3 hours per day. Per state requirements for license-exempt childcare facilities, children under the age of 4 years and 9 months can enroll in a maximum of 12 hours of preschool programming per week.

ANALYSIS

History of San José Recreation Preschool

Per Council Policy 1-21, the Pricing and Revenue Policy, San José Recreation Preschool is identified as a private service in which the fee to participate is the responsibility of the customer. Compared to public or merit-based services, private services are set with higher cost recovery targets, receive minimal if any General Fund subsidy and typically provide benefit to the individual rather than the larger community. San José Recreation Preschool pricing is set to be competitive with other similarly situated early education program providers in the area. Staff

develops the program's pricing model with the objective of ensuring cost recovery in terms of the City's direct and indirect costs for delivering services to the community. Any revenues generated through participant fees go towards recouping these programming costs, including program discounts and scholarships for community members who cannot otherwise afford to pay the full price. This pricing structure alleviates costs to the General Fund as direct expenses are fully recouped through program participant fees. The following table provides an overview of San José Recreation Preschool pricing, participation, and scholarship usage year over year.

San José Recreation Preschool Enrollment & Scholarships

Fiscal Year	Annual Price, M/W/F	Annual Price, T/TH	Participants (Unduplicated)	Total Scholarship Award Amount
2015-2016	\$2,169	\$1,791	553	\$29,772
2016-2017	\$2,232	\$1,845	607	\$34,631
2017-2018	\$2,304	\$1,908	620	\$29,637
2018-2019	\$2,655	\$1,773	734	\$25,998

San José Recreation Preschool implemented changes in 2018-2019 to comply with state regulations for license-exempt preschool programs, which included monitoring that participants under the age of 4 years and 9 months could not participate in more than the maximum 12 hours of pre-school programming (resulting in refunds and some loss of revenue). Additionally, San José Recreation Preschool standardized the cost per hour across both the M/W/F and T/TH sessions, which resulted in a slight decrease in T/TH pricing. Overall San José Recreation Preschool revenue, expenses, and cost recovery is illustrated below.

San José Recreation Preschool Cost Recovery

Fiscal Year	Direct Expenses	Revenue	Direct Cost Recovery	Total Cost Recovery*
2015-2016	\$738,780	\$1,091,904	148%	92%
2016-2017	\$880,073	\$1,315,986	150%	74%
2017-2018	\$947,354	\$1,379,270	146%	83%
2018-2019 (Projected)	\$948,951	\$1,358,610	143%	92%

- * Total cost recovery includes direct costs as well as indirect costs, including overhead expenses such as PRNS management and administration, citywide central support services, facility maintenance, utilities, technology, and legal expenses, as calculated annually by the Finance Department.

2019-2020 School Year

As detailed in the Report on Quality Standards for Early Education Programming, accepted by City Council on March 26, 2019, the Department will start year-1 implementation of the Early Education Quality Standards in its San José Recreation Preschool program beginning with the 2019-2020 school year. The Early Education Quality Standards will serve as an internal continuous quality improvement tool to support the citywide education and digital literacy

strategy. In doing this, the Department will focus specifically on the following three Early Education Quality Standards areas in the upcoming school year: Child Development & Learning; Curriculum & Teaching Practices; and, Equity, Diversity, and Inclusion.

Implementation of this first phase will be conducted in joint partnership with FIRST 5 Santa Clara County, which will provide trainings to San José Recreation Preschool staff on the City's newly-adopted evidence-based curriculum, *SEEDS of Learning*. In addition, FIRST 5 Santa Clara County will support formal assessments of participating children, which will be used to determine individuals' educational progress, and the program's success in advancing the Early Education Quality Standards. To start, these assessments will be conducted at six pilot site locations, including Almaden, Berryessa, Evergreen, Mayfair, Roosevelt, and Seven Trees. These initial sites were identified as a representation of San José's diverse population in terms of language, socio-economic status, and ethnicity/race, and these sites vary in student enrollment size and years of staff experience.

Additionally, in an effort to increase enrollment and provide more equitable access to this fee-based program, PRNS plans to increase its scholarship discount rate for the 2019-2020 school year. Previously, there have been two levels of scholarship discount depending on enrollment in specific assistance programs such as Cal-Fresh, Free/Reduced Lunch Program, or Section 8, with either a 20 percent or 30 percent discount. Despite the continued availability of funding, scholarship usage has decreased year over year since 2016-2017. Staff attributes this to high need communities requiring a higher subsidy than the current 30 percent offered. For the 2019-2020 school year, PRNS will be offering a standardized scholarship discount rate of 35 percent regardless of which assistance program participants are enrolled in by increasing the total scholarship award fund amount from \$30,000 to \$46,000. 2019-2020 pricing is detailed below.

2019-2020 San José Recreation Preschool Pricing

Days	Annual Price	Scholarship Discount	Scholarship Price
T/TH	\$1,917	35%	\$1,242
M/W/F	\$2,871	35%	\$1,863

Overall, the Department's early education programming expenses for the 2019-2020 school year, based on the number of existing sites and current staffing model, are expected to total \$1,121,000 as outlined in the following table. \$141,000 of this amount is for new expenses related to the year one implementation of the Early Education Quality Standards and the increased scholarship subsidy. A price increase of 8 percent for 2019-2020 will partially offset these costs, in addition to paying for cost of living increases for staff.

In coordination with the San José Public Library and the Human Resources Department, the Department will explore the creation of an early education series of job classifications. These job classifications will highlight the qualifications and experiences needed to have the San José Recreation Preschool programs meet the "proficient" and "advanced" ratings within the Early Education Quality Standards among programs that extend beyond San José Recreation

Preschool. This work, which will be completed with support from a consultant, will cost approximately \$25,000.

2019-2020 Early Education Program Projected Cost Recovery Rate (Existing Sites)

Direct Expenses	
Staff	\$900,000
Training for staff (to meet Early Education Quality Standards)*	\$50,000
Classroom enhancements (to meet Early Education Quality Standards)*	\$50,000
Consumable supplies and materials	\$50,000
Scholarships**	\$46,000
Consultant to support HR study*	\$25,000
Total Projected 2019-2020 Expense:	\$1,121,000
Projected Revenue	\$1,426,590
Projected 2019-2020 Direct Cost Recovery Rate	127%
Projected 2019-2020 Total Cost Recovery Rate	87%

* New expense for 2019-2020

** Scholarships funding was \$30,000 in 2018-2019

Of the anticipated costs listed in the table above, new program elements of \$141,000 related to training and classroom enhancements for the first phase of the implementation of the Early Education Quality Standards (\$100,000), the potential creation of a new early education job series classification (\$25,000), and an increase to scholarships (\$16,000) are not included in the 2019-2020 Proposed Operating Budget. The Administration will evaluate the degree to which any of these increased costs can be absorbed or reallocated within existing resources, or if additional resources need to be added as part of the 2019-2020 Rebudget/Clean-up Manager's Budget Addendum scheduled for release at the end of this month. It is important to note that these costs are currently considered one-time. Based on the evaluation of the first phase implementation of the Early Education Quality Standards, additional funding recommendations may be brought forward during the 2020-2021 budget development process.

Program Expansion

Currently, the ability for the Department to expand the San José Recreation Preschool program is physically constrained by existing classroom space managed through the Hub Community Centers. Currently, 10 community center hubs and three Reuse facilities house the 25 San José Recreation Preschool classrooms. Six of these sites have reached maximum enrollment capacity in the 2018-2019 school year.

As current classroom space is limited, the evaluation of other Reuse facilities will be incorporated as part of the Department's Reuse workplan for 2019-2020. For example, in the City Council Policy Priorities, MBA #11, which discusses Family-Friendly City Child Care, the Department estimated that conversion of an existing classroom at the Gardner Community Center would cost \$70,000 for initial furniture and equipment to make the space preschool ready. Ongoing costs would include \$10,000 for consumable supplies and materials, as well as roughly \$133,000 of staff costs including 4.0 part-time unbenefited Class Instructor positions. These costs are based on the assumption of one classroom containing 34 children. The total 2019-2020 direct costs are \$213,000. To partially offset the costs, estimated revenue of \$151,060 is assumed from the anticipated participation with an assumption that 20 percent of the participants are eligible for a scholarship. The net cost in the first year would be \$61,940.

In order to fully implement the Early Education Quality Standards within the Library and Parks, Recreation, and Neighborhood Services Departments, and support a citywide expansion of early childhood programs, an additional cost proposal will need to be brought forward in 2020-2021. Costs would include expanding the newly-adopted evidence-based curriculum *SEEDS of Learning*, to the Department's additional seven locations, evaluation, consumable supplies, and scholarships.

Additionally, the continued expansion of the Early Education Quality Standards requires additional supervisory staffing in the Library and PRNS Departments. These staff, identified in the table below, would monitor program quality, provide ongoing training, and ensure policy compliance. Staff would also research and implement a new scholarship model, such as a sliding scale model, and cultivate partnerships to expand affordable early childhood education programs within marginalized communities. The table below illustrates the total additional program oversight staff costs of expanding San José Recreation Preschool.

Program Oversight Staff Cost of Potential Future Program Expansion*

Staffing	
3.0 Literacy Program Specialists (1.0 Library; 2.0 PRNS)	\$387,000
1.0 Recreation Superintendent (PRNS)	\$196,000
Total	\$583,000

- * These costs include the management needed to develop and manage a citywide expansion. Staff is evaluating the additional costs needed in 2020-2021 to expand the curriculum and evaluation of *SEEDS of Learning* to all San José Recreation Preschool locations.

This expansion of oversight staffing is commensurate with the scope and level of work the Department foresees with the evolution of recreational preschool programming. Namely, as the City pursues service delivery models that are more educational in focus, the Department will seek to develop and implement a strategy that focuses on implementing curriculum-based programming in a way that makes monitoring, achieving, and reporting performance and progress possible. This is necessary should the City decide to secure the certifications and State licensure needed to expand early childhood education programming beyond current recreational

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programming constraints (3 hours per day, 12 hours per week for children under the age of 4 years and 9 months). In doing this, the Department will have greater capacity to provide more robust early childhood education services in the future.

COORDINATION

This memorandum was coordinated with the Library Department and the City Manager's Budget Office.

/s/

Jon Cicirelli

Acting Director, Parks, Recreation and
Neighborhood Services

For questions please contact Neil Rufino, Deputy Director at (408)-535-5376.